

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 NEA-09 ISO-00 FEA-01 AEC-05 AID-05

CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00 FPC-01 H-01

INR-07 INT-05 L-02 NSAE-00 NSC-05 OMB-01 PM-03 RSC-01

SAM-01 OES-03 SP-02 SS-15 STR-01 TRSE-00 FRB-01 /091 W

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R 171757Z JAN 75

FM AMEMBASSY BONN

TO SECSTATE WASHDC 7337

INFO AMEMBASSY DUBLIN

AMEMBASSY LONDON

AMEMBASSY COPENHAGEN

AMEMBASSY THE HAGUE

AMEMBASSY BRUSSELS

AMEMBASSY PARIS

AMEMBASSY LUXEMBOURG

AMEMBASSY ROME

AMEMBASSY TEHRAN

USMISSION EC BRUSSELS

USMISSION OECD PARIS

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E.O. 11652: N/A

TAGS: ENRG, GW, IR

SUBJECT: GERMAN/IRANIAN REFINERY PROJECT

REF: BONN 14737 (NOTAL)

1. ACCORDING TO AN ECONOMICS MINISTRY SOURCE,
NEGOTIATIONS BETWEEN THE GOI AND THE PARTICIPATING
GERMAN FIRMS ON THE CONSTRUCTION OF A 25 MILLION TON
PETROLEUM REFINERY TOOK A MAJOR STEP FORWARD THIS
WEEK WITH THE TABLING OF A NEW OFFER BY THE IRANIANS
ON JANUARY 14. THIS OFFER BRINGS THE PARTIES MUCH
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CLOSER TOGETHER IN THE CRUCIAL AREAS OF PRICE AND

TAXES. OUR SOURCE SAID HE WAS NOW THE MOST OPTIMISTIC HE HAD BEEN IN MONTHS THAT THE NEGOTIATIONS ON THE PROJECT WOULD EVENTUALLY SUCCEED.

2. THE REFINERY PROJECT WILL PAY THE PREVAILING MARKET PRICE FOR THE CRUDE OIL INPUTS. THE PRODUCTS OF THE REFINERY WILL IN TURN BE SOLD AT THE PREVAILING PERSIAN GULF PRICE. THE IRANIANS HAVE DROPPED THEIR DEMAND FOR A "POSTED PROFIT" CONCEPT ON WHICH THE PROJECT'S TAXES WOULD BE BASED AND THEY HAVE AGREED TO A DEPRECIATION WRITEOFF OVER 20 YEARS INSTEAD OF 50 YEARS FOR TAX PURPOSES. ADDING A NEW WRINKLE, THE IRANIANS ARE NOW INSISTING THAT THE PROJECT MUST BE 100 PERCENT OWNED BY NIOC BUT THE GERMAN FIRMS' RELATIONSHIP WITH THE PROJECT IS TO BE STRUCTURED IN SUCH A WAY AS TO PROVIDE ALMOST THE SAME BENEFITS AS UNDER AN OWNERSHIP SITUATION.

3. NEGOTIATIONS ARE TO CONTINUE AT THE EXPERT LEVEL IN FEBRUARY WITH A TARGET DATE OF MARCH FOR A FINAL DECISION ON THE PART OF THE GERMAN COMPANIES. THE EC COUNCIL OF MINISTERS IS ALSO SCHEDULED TO DISCUSS THIS PROJECT AT NEXT WEEK'S MEETING.

4.COMMENT. THE NEW IRANIAN OFFER SEEMS TO REPRESENT A SUBSTANTIAL BREAKTHROUGH IN NEGOTIATIONS WHICH HAVE BEEN STALLED FOR SOME TIME AND WHICH, UP UNTIL VERY RECENTLY, LOOKED PROBLEMATIC AT BEST. IF THIS OFFER LEADS TO RAPID AGREEMENT ON THE REMAINING COMMERCIAL ISSUES, THEN THE QUESTION OF DUTY FREE IMPORTS FOR THE REFINERY'S PRODUCTS WILL BE THE SOLE REMAINING OBSTACLE TO COMPLETION OF THE NEGOTIATIONS.IN

THIS CASE WE WOULD EXPECT CONSIDERABLE GERMAN PRESSURE WITHIN THE EC FRAMEWORK TO OBTAIN SUCH DUTY FREE TREATMENT.

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